

**Washington State Tax Structure Study
Committee Meeting
October 15, 2001**

Committee members present:

John Beck
Neil Bruce
Jack Cairnes
Dow Constantine
Bill Gates, Sr.
Lily Kahng
Jim McIntire
Debbe Sanders
Hugh Spitzer
Gary Strannigan

Committee member absent: Dick Conway

Introductions/Election of the Committee Chair:

The committee members introduced themselves. Will Rice, Deputy Director of the Department of Revenue, facilitated the election of a Committee Chair. Dow Constantine nominated and Hugh Spitzer seconded the nomination of Bill Gates for Chair. The vote was unanimous.

Bill Gates appointed Hugh Spitzer to serve as Vice Chair.

Introductory Remarks:

Introductory remarks were given by Senator Lisa Brown, Chair of the Senate Ways and Means Committee, and Representative Barry Sehlin, Co-chair of the House Appropriations Committee.

Senator Brown commented that we need to take a comprehensive look at our tax structure. Our present tax system imposes a much greater burden on our lower income citizens. Many tax exemptions over time and cumulatively have created a disservice in respect to the entire tax structure. An example of an exemption that has created a distortion is the property tax exemption for senior citizens -- those generally are shifts. Young families are trying to enter the housing market and also have significant needs. .

Representative Sehlin commented that the result of the committee's work should be a thorough evaluation of the current tax system. He is particularly interested in a view from the spending side and encouraging business development. He would like the committee to look at the fee structure as fees for resource management and regulatory agencies are a big part of the cost of doing business. He would also like an evaluation of what we should be trying to do with tax policy. First, what behaviors we are trying to influence. How should we go about that? He

would like the Committee to come out with something that will result in action. No specific part of the tax policy is off the table. That doesn't mean that the result of this committee need be just a few small incremental adjustments. The committee's recommendations could potentially be used as a guideline.

Presentation: Will Rice gave a slide presentation of an overview of Washington's tax structure.

Discussion *“What should our final product look like?” And “How can the work of the committee have enduring value?”*

The Committee discussed the following for possible inclusion in the final report:

- The evolution of the Washington state tax structure.
- A discussion of tax principles and an examination of the current system (including exemptions, credits, deferrals, and property taxes) and how it measures in terms of the tax principles.
- A “buffet” of things—some small and some big—and try to demonstrate how emphasizing different approaches will present different values that people has. Come up with options and tie options to value judgments. People can pick out of the options depending on what they believe.
- A review of tax reform studies that have been done in other states—specifically New Jersey, Connecticut, Tennessee, Michigan, Oklahoma, Florida, Minnesota, Illinois. Also include the tax structure of British Columbia because Canada has some economic similarities. Examine the circumstances that led to tax reform; the proposed changes and rationale; and if the tax reform was successful, why, and if not, why not.
- An overview of other ways to tax such as the value added tax and flat tax.
- An overview of fees and charges to determine the total tax burden on Washington residents and how much of our tax system depends on these fees and charges. What is the role of fees and charges? What are the current standards for imposing fees and charges? When is it best in the state system to charge a fee? When is it best to have money in the general fund to pay charges?
- An examination of dedicated taxes that may lead to a meaningful statement about when dedicated taxes are and are not appropriate.
- An examination of issues that result from the differences in the tax system of Washington and neighboring states.

The Committee commented that the report may have enduring value if it is educational, raised awareness, and is something that a legislator or policy maker could refer to when discussing or deciding tax policy.

Discussion: How can the committee best use the Advisory Group?

The committee members said that they value input from the advisory group. The committee would like to use the advisory group in the following ways:

- To provide feedback on the current tax system. List their top two problems with the current system
- To provide focused input on issues. Issue of competitiveness of the tax system
- To serve as a sounding board for alternatives
- To find out how taxes affect their personal and business behavior. (i.e. Does the tax structure encourage or discourage certain types of economic behavior, business behavior)
- To possibly complete a questionnaire to explore areas related to each of the tax principles.
- To interact as a virtual advisory group -- poll them and ask for their opinions via E-mail. Keep them informed through the web site.

Future Meetings:

Meetings will be held on the second Friday of each month from 11 a.m. to 2 p.m. All of the meetings will be held at the DoubleTree Hotel if possible. The February and March meetings will be held in Olympia.

November Meeting Agenda

Neil Bruce will give a presentation on tax principles.

Hugh Spitzer will give a presentation on the history of taxes in Washington state.